



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
POWELL COUNTY SHERIFF**

Calendar Year 1997

**EDWARD B. HATCHETT, JR.
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Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Sarah Jane Schaaf, Secretary, Revenue Cabinet
Honorable Bobby Drake, County Judge/Executive
Honorable Darren Farmer, Powell County Sheriff
Members of the Powell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the Sheriff of Powell County, Kentucky, for the year ended December 31, 1997. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff is required to prepare the financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Sheriff for the year ended December 31, 1997, in conformity with the basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
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Honorable Bobby Drake, County Judge/Executive
Honorable Darren Farmer, Powell County Sheriff
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Based on the results of our audit, we have presented Comments and Recommendations, included herein, which discuss the following areas of noncompliance:

- The Sheriff Should Publish An Annual Financial Statement Within 60 Days After The Close Of The Calendar Year
- The Sheriff Should Have A Written Agreement To Protect Deposits

In accordance with Government Auditing Standards, we have also issued a report dated April 26, 1999, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
April 26, 1999

POWELL COUNTY
DARREN FARMER, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 1997

Receipts

Federal Fees For Services	\$	2,013	
State Fees For Services:			
Finance and Administration Cabinet			6,561
Circuit Court Clerk:			
Sheriff Security Service			10,766
Fiscal Court:			
Sheriff Salary	\$	14,067	
Election Commission		200	14,267
County Clerk - Delinquent Taxes			2,574
Commission On Taxes Collected			57,491
Fees Collected For Services:			
Auto Inspections	\$	4,410	
Accident /Police Reports		98	
Serving Papers		14,869	
CCDW Fees		5,220	
Restitution		101	
Transporting Prisoners		1,720	
Calendars		928	
Miscellaneous		1,465	28,811
Interest Earned			2,082
Borrowed Money:			
From Fiscal Court	\$	10,000	
From 1995 Fee Account		6,000	
From 1996 Fee Account		4,815	20,815
Loan Reimbursement:			
Reimbursement from 1998 Fee Account	\$	7,000	
Reimbursement from 1999 Fee Account		2,500	9,500
Gross Receipts (Carried Forward)	\$		154,880

POWELL COUNTY
 DARREN FARMER, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 1997
 (Continued)

Gross Receipts (Brought Forward) \$ 154,880

Disbursements

Operating Disbursements:

Personnel Services-		
Deputies Gross Salaries	\$ 45,993	
Contracted Services-		
Vehicle Maintenance and Repairs	2,862	
Materials and Supplies-		
Office Materials and Supplies	640	
Uniforms	1,502	
Auto Expense-		
Gasoline	8,427	
Other Charges-		
CCDW	4,040	
Dues	25	
Postage	12	
Serving Papers Fees	170	
Film and Processing	208	
Miscellaneous	1,476	\$ 65,355

Debt Service:

Repay Loan from Fiscal Court	\$ 10,000	
Repay Loan from 1995 Fee Account	6,000	
Repay Loan from 1996 Fee Account	3,315	19,315

Loans:

Loan to 1998 Fee Account	\$ 7,000	
Loan to 1999 Fee Account	2,500	9,500

Liability Paid:

Additional 1996 Sheriff Fees Due County Treasurer	1,500	
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Total Disbursements and Liability 95,670

Net Receipts (Carried Forward) \$ 59,210

POWELL COUNTY
DARREN FARMER, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
Calendar Year 1997
(Continued)

Net Receipts (Brought Forward)	\$ 59,210
Less: Statutory Maximum	<u>47,899</u>
Excess Fees Due County for Calendar Year 1997	\$ 11,311
Payments to County Treasurer- April 26, 1999 *	<u>11,311</u>
Balance Due at Completion of Audit	<u><u>\$ 0</u></u>

*Actual payment was \$11,311 for 1997 excess fees and \$1,500 for 1996 excess fees.

The accompanying notes are an integral part of the financial statement.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 1997

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting pursuant to KRS 68.210 as recommended by the State Local Finance Officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.65 percent.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 1997
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. The depository institution has made such a pledge, and the depository institution's board of directors or loan committee approved the pledge. However, the depository institution did not have a written agreement with the Sheriff until December 15, 1997.

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COMMENTS AND RECOMMENDATIONS

POWELL COUNTY
DARREN FARMER, SHERIFF
COMMENTS AND RECOMMENDATIONS

December 31, 1997

STATE LAWS AND REGULATIONS:

1. The Sheriff Should Publish An Annual Financial Statement Within 60 Days After The Close Of The Calendar Year
-

The Sheriff published his financial statement on March 26, 1998. KRS 424.220 requires the publication to occur within 60 days after December 31, 1997. The timeliness of this financial publication, which is for public inspection, should always meet the legal deadline. We recommend the Sheriff publish his financial statement in a timely manner.

Management's Response:

OK.

2. The Sheriff Should Have A Written Agreement To Protect Deposits

The Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). The Sheriff had a bank balance of \$438,368; FDIC insurance of \$100,000; and securities pledged of \$647,437 as of May 12, 1997. Even though the Sheriff obtained pledged securities of \$647,437, the pledge was not evidenced by a written agreement. We recommend the Sheriff enter into a written agreement with the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. However, a written agreement was entered into on December 15, 1997, with the bank.

Management's Response:

Upon becoming aware of problem, an agreement was entered with the bank.

PRIOR YEAR:

1. The Sheriff should publish an annual statement within 60 days after the close of the calendar year.
2. The Sheriff should have required depository institutions to pledge additional securities of \$386,047 as collateral to protect deposits.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable Bobby Drake, County Judge/Executive
Honorable Darren Farmer, Powell County Sheriff
Members of the Powell County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Powell County Sheriff as of December 31, 1997, and have issued our report thereon dated April 26, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Powell County Sheriff's financial statement as of December 31, 1997, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Powell County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Bobby Drake, County Judge/Executive
Honorable Darren Farmer, Powell County Sheriff
Members of the Powell County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
April 26, 1999

